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C O N F I D E N T I A L SECTION 01 OF 03 SANTIAGO 000867

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SUBJECT: CHILE: Conservatives Beat Back Skeleton in Pinera's Closet

REF: SANTIAGO 755

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CLASSIFIED BY: Carol Urban, Deputy Chief of Mission, State Department, US Embassy Santiago; REASON: 1.4(B)

¶11. (SBU) Summary: Eduardo Frei attempted to taint presidential challenger Sebastian Pinera with renewed allegations of insider trading. Pinera's skilled campaign team flipped the issue into a referendum on the NGO that reported the incident. A competitive businessman and politician prone to taking risks, Pinera has been linked to a number of questionable actions in the past and is likely to continue to face questions about past business deals, but voters seem relatively unconcerned by these charges. End Summary.

Insider Trading Allegations Resurface...

¶12. (U) A highly motivated businessman willing to take risks, Alianza presidential candidate Sebastian Pinera is no stranger to scandal. The most recent accusations of impropriety surfaced during a televised presidential debate on September 23, the first major debate of this election cycle. Assigned to talk about corruption, Concertacion candidate Eduardo Frei avoided speaking about a series of fairly minor scandals that have tainted his coalition's reputation and instead accused Pinera of insider trading, citing an annual and worldwide Transparency International report issued that day. The report noted that in July 2006, while president of LAN Chile, Pinera purchased 3 million LAN Chile shares just hours after receiving the company's latest and unpublished financial report. Chile's Securities and Exchange Commission investigated the transaction and charged Pinera with "abuse of privileged information" in 2007. Pinera paid a USD 700,000 fine and stepped down as president of the company, but denied any wrongdoing. One claim is that the purchase had been programmed before he obtained the company's financial report, and that his mistake was not cancelling the purchase after he obtained the information.

...but Attention Shifts to the Accuser

¶13. (U) In response to Frei's charge during the debate, Pinera reiterated his denial of any illegal activity and demanded that

Frei apologize. Immediately following the debate, Pinera advisors accused Chile Transparente, the local arm of Transparency International, of political bias. In the following week, the topic spurred a polemic debate--not about Pinera's actions, but rather about the accuracy and objectivity of the report. One board member of Chile Transparente, the local arm of Transparency International, very publicly resigned from the organization amid the clamor. Amidst the daily headlines questioning the objectivity and management of the previously respected organization, Pinera's alleged insider trading was all but forgotten.

Pinera on the Lam?: Alleged Financial Fraud in the 1970s

¶4. (C) Frei's debate offensive marks the second time that old accusations of Pinera misconduct have resurfaced during the presidential campaign. In July 2009, a Pinochet-era Justice Minister stated that she had intervened on Pinera's behalf to obtain an injunction that would prevent Pinera from being served with an arrest warrant (reftel). This revelation related to charges stemming from Pinera's tenure as general manager of the Bank of Talca from 1979 - 1980, a period when there was little oversight or regulation of Chile's banking industry and many banks and bank executives enjoyed considerable success, often through shady dealings. Like many other banks of the time--and not unlike the recent financial crisis in the U.S.--the Bank of Talca made many very risky loans, which initially led to handsome profits but ultimately led to bankruptcy. However, Pinera and other Talca

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executives went beyond the typical improprieties of the day. In addition to the bad loans they approved, they also created dozens of fake companies, gave these companies loans from the bank, and then used the funds to buy more bank shares. They profited again when the government stepped in and bailed out the banking sector -- and its shareholders -- while the loans to fake companies were written off and Pinera and other executives did not have to repay the principal.

¶5. (U) In April 1982, a judge ordered Pinera's arrest. Pinera went into hiding for 24 days in order to avoid being formally served with the arrest warrant. His lawyers placed an injunction on the case, which was heard by the Supreme Court. The injunction was accepted and the case dismissed. The charges were never investigated.

Links to a Price-Fixing Pharmacy

¶6. (U) More recently, Frei also attempted to highlight the (relatively weak) link between Pinera and a 2008 price-fixing scandal. In December 2008, Chile's National Economic Prosecutor's Office sued three pharmacy chains for USD 15 million each, alleging that they had colluded to raise the price of more than 200 medicines by as much as 200 percent in 2007 and 2008. In March 2009, one of the firms, Farmacias Ahumada agreed to pay a USD 1 million fine in exchange for having the charges dropped. The same month, the press reported that Sebastian Pinera owned 2 per cent of that retail chain via his investment fund, Santa Cecilia. Pinera confirmed that he owned a small stake in the company, but claimed he was unaware of these holdings, saying that he was "just like millions of Chilean investors and individuals whose pension funds hold stakes in the company." Pinera promptly sold his shares.

How About Frei?

¶ 7. (C) Concertacion candidate Eduardo Frei's past has also come to haunt him during this year's presidential campaign. In 1994, then-President Frei pardoned Angel Vargas Parga, a drug trafficker convicted of smuggling half a ton of cocaine into Chile. While Frei claimed that he was motivated by Vargas' good behavior in prison, opponents allege that Vargas' well-connected Christian Democrat family was the real reason behind the release. (Note: A longtime Frei confidante and advisor told us recently that then-Justice Minister Soledad Alvear made the decision to pardon Vargas. Frei was not involved in the decisionmaking and found out after the fact, but has to defend the decision nonetheless. End Note.) Alianza has also accused Frei of being improperly involved in managing his investments during his presidential term. Nonetheless, Frei--who is widely viewed as solid, respectable, and frankly a bit boring--seems to have fewer skeletons in his closet than his opponent.

Do the Voters Care?

¶ 8. (SBU) Chilean voters seem relatively unconcerned by the allegations against Pinera. Polls suggest that voters see corruption as a real problem in Chile, but don't rate tackling corruption as a top priority. In an August poll by Ipsos, 53% of those surveyed said that Chile was a corrupt country. However, polls consistently show that voters' top concerns are unemployment, crime, health, and education; corruption lingers near the bottom of the list. Moreover, Pinera's image as an astute businessman seems to be reflected in how voters see his strengths vis-a-vis Frei's. Frei comes out slightly ahead of Pinera in measures of perceived

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honesty, while Pinera has a wide lead in terms of perceived intelligence and ability to assemble a good political team.

The Forgotten Skeleton in Pinera's Closet: "Pineragate"

¶ 9. (U) Other potential minefields in Pinera's political and business history remain and may surface during the presidential campaign. The most significant of these stems from a 1992 phone conversation in which Pinera discussed strategies to destroy political rival Evelyn Matthei. The call--which featured Pinera using coarse language and referring dismissively to Matthei as a little girl--was secretly recorded by military intelligence and passed to television-station owner Ricardo Claro, a business magnate and Pinera rival. It aired on Chilean television in August 1992 when Claro made a surprise appearance on his station's public affairs show. The ensuing scandal, referred to as "Pineragate," exposed Pinera's scheming; the fractious divisions within the right; and continued military interference in politics. The scandal torpedoed both Pinera and Matthei's hopes for the 1993 presidential election, and led to a rift between the two that has only recently been repaired.

Comment

¶10. (C) Driven and competitive, Sebastian Pinera pushes both his businesses and his politics to the limits of the law and ethics. Some of his actions--such as lending money to fictitious companies--seem to clearly cross the line into legal impropriety. At other times, though, he seems more to be a victim of circumstance, carelessness, or the sheer vastness of his fortune. Disparaging your political opponent in a private telephone conversation or investing in one troubled company amidst a diverse portfolio hardly seems surprising for a hard-charging businessman turned politician. These charges have aired at various times in the past, and when they have resurfaced during this campaign have had relatively little impact on the general public, which seems to see them as a mix of old news and business as it used to be. What is particularly noteworthy about the latest episode is the way the tables have been completely turned to focus on the shortcomings of the manner in which Chile Transparente managed the report, rather than the underlying charges of insider trading. Such a reversal can be attributed to three things: an impressive Pinera campaign team eager to go on the attack, Frei's lackluster communication strategists, and the generally conservative Santiago press. End Comment.

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